

109TH CONGRESS  
2D SESSION

# H. R. 5892

To amend the Internal Revenue Code of 1986 to provide special rules for the exchange or installment sale of certain agricultural property.

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IN THE HOUSE OF REPRESENTATIVES

JULY 26, 2006

Mr. ADERHOLT introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide special rules for the exchange or installment sale of certain agricultural property.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Farmers Tax Deferral  
5       Act”.

6       **SEC. 2. NONTAXABLE EXCHANGE OF QUALIFIED AGRICUL-**  
7       **TURAL PROPERTY FOR REAL PROPERTY.**

8       (a) IN GENERAL.—Part III of subchapter O of chap-  
9       ter 1 of the Internal Revenue Code of 1986 (relating to

1 common nontaxable exchanges) is amended by adding at  
 2 the end the following new section:

3 **“SEC. 1046. EXCHANGE OF QUALIFIED AGRICULTURAL**  
 4 **PROPERTY FOR REAL PROPERTY.**

5 “(a) IN GENERAL.—No gain or loss shall be recog-  
 6 nized to a qualified person on the receipt of United States  
 7 real property in exchange for any qualified agricultural  
 8 property.

9 “(b) QUALIFIED PERSON.—For purposes of this sec-  
 10 tion, the term ‘qualified person’ means—

11 “(1) any individual who has attained age 55 as  
 12 of the date that such real property is received,

13 “(2) any corporation if all of the outstanding  
 14 stock of such corporation is owned by one or more  
 15 individuals described in paragraph (1), and

16 “(3) any partnership, trust, or estate if all of  
 17 the beneficial interests in such partnership, trust, or  
 18 estate are owned by one or more individuals de-  
 19 scribed in paragraph (1).

20 “(c) QUALIFIED AGRICULTURAL PROPERTY.—The  
 21 term ‘qualified agricultural property’ means—

22 “(1) any single purpose agricultural or horti-  
 23 cultural structure (as defined in section 168(i)(13))  
 24 which was placed in service by the taxpayer more  
 25 than 20 years before the date that such structure is

1 transferred in the exchange described in subsection  
2 (a), and

3 “(2) any real property, equipment, or fixtures  
4 which are related in use to such structure.

5 “(d) UNITED STATES REAL PROPERTY.—For pur-  
6 poses of this section, the term ‘United States real prop-  
7 erty’ means real property located in the United States.

8 “(e) REQUIREMENT THAT PROPERTY BE IDENTI-  
9 FIED AND THAT EXCHANGE BE COMPLETED NOT MORE  
10 THAN 180 DAYS AFTER TRANSFER OF EXCHANGED  
11 PROPERTY.—For purposes of this section, any property  
12 received by the taxpayer shall be treated as property which  
13 is not real property if—

14 “(1) such property is not identified as property  
15 to be received in the exchange on or before the day  
16 which is 45 days after the date on which the tax-  
17 payer transfers the property relinquished in the ex-  
18 change, or

19 “(2) such property is received after the earlier  
20 of—

21 “(A) the day which is 180 days after the  
22 date on which the taxpayer transfers the prop-  
23 erty relinquished in the exchange, or

24 “(B) the due date (determined with regard  
25 to extension) for the transferor’s return of the

1 tax imposed by this chapter for the taxable year  
 2 in which the transfer of the relinquished prop-  
 3 erty occurs.

4 “(f) APPLICATION OF RULES REGARDING BASIS, EX-  
 5 CHANGES NOT SOLELY IN KIND, AND RELATED PAR-  
 6 TIES.—Rules similar to the rules of subsections (b), (c),  
 7 (d), (f), and (g) of section 1031 shall apply for purposes  
 8 of this section.

9 “(g) TREATMENT AS SECTION 1031 EXCHANGE.—  
 10 For purposes of this title (other than sections 1031 and  
 11 1245), a transaction described in this section shall be  
 12 treated in the same manner as a transaction described in  
 13 section 1031.”.

14 (b) ORDINARY INCOME RECAPTURE DEFERRED  
 15 UNTIL DISPOSITION OF REAL PROPERTY ACQUIRED IN  
 16 EXCHANGE.—Subsection (b) of section 1245 of such Code  
 17 is amended by adding at the end the following new para-  
 18 graph:

19 “(9) SPECIAL RULE FOR LIKE KIND EX-  
 20 CHANGES OF QUALIFIED AGRICULTURAL PROP-  
 21 erty.—

22 “(A) IN GENERAL.—If qualified agricul-  
 23 tural property (as defined in section 1046(c)) is  
 24 disposed of and gain (determined without re-  
 25 gard to this section) is not recognized in whole

1 or in part under section 1046, then the amount  
2 of gain taken into account by the transferor  
3 under subsection (a)(1) shall not exceed the  
4 sum of—

5 “(i) the amount of gain recognized on  
6 such disposition (determined without re-  
7 gard to this section), plus

8 “(ii) the fair market value of property  
9 acquired which is not taken into account  
10 under clause (i) and which is not—

11 “(I) section 1245 property, or

12 “(II) United States real property.

13 “(B) ORDINARY INCOME RECAPTURE ON  
14 DISPOSITION OF REAL PROPERTY ACQUIRED IN  
15 EXCHANGE.—If United States real property ac-  
16 quired in an exchange to which section 1046  
17 applies is disposed of by the transferee, the  
18 lesser of—

19 “(i) the excess of—

20 “(I) the amount realized on the  
21 disposition of such real property (in  
22 the case of a disposition other than a  
23 sale, exchange, or involuntary conver-  
24 sion, the fair market value of such  
25 real property), over

1 “(II) the adjusted basis of such  
2 real property, or

3 “(ii) the excess of—

4 “(I) the amount of gain that  
5 would have been treated as ordinary  
6 income under this section if such  
7 qualified agricultural property were  
8 sold at fair market value on the date  
9 of the disposition of such qualified ag-  
10 ricultural property, over

11 “(II) the amount of gain recog-  
12 nized as ordinary income under this  
13 subparagraph with respect to such  
14 qualified agricultural property on the  
15 disposition of any other real property,  
16 shall be treated as ordinary income. Such gain shall  
17 be recognized notwithstanding any other provision of  
18 this subtitle.”.

19 (c) EFFECTIVE DATE.—

20 (1) SUBSECTION (a).—The amendments made  
21 by subsection (a) shall apply to transfers after the  
22 date of the enactment of this Act.

23 (2) SUBSECTION (b).—The amendments made  
24 by subsection (b) shall apply to dispositions after the  
25 date of the enactment of this Act.

1 **SEC. 3. SPECIAL RULES FOR INSTALLMENT SALES OF**  
2 **QUALIFIED AGRICULTURAL PROPERTY.**

3 (a) IN GENERAL.—Subsection (i) of section 453 of  
4 the Internal Revenue Code of 1986 is amended by redesignig-  
5 nating paragraph (2) as paragraph (3) and by inserting  
6 after paragraph (1) the following new paragraph:

7 “(2) SPECIAL RULE FOR QUALIFIED AGRICUL-  
8 TURAL PROPERTY.—Notwithstanding paragraph (1),  
9 in the case of any installment sale of qualified agri-  
10 cultural property (as defined in section 1046(c), ap-  
11 plied by substituting ‘the installment sale described  
12 in section 453(i)(2)’ for ‘the exchange described in  
13 subsection (a)’ in paragraph (1) thereof) to which  
14 subsection (a) applies—

15 “(A) income from the installment sale shall  
16 be taken into account under the installment  
17 method, and

18 “(B) income recognized for any taxable  
19 year from such sale under such method shall be  
20 recognized as recapture income in such year in  
21 the same proportion to such income recognized  
22 for such year from such sale as—

23 “(i) the aggregate recapture income  
24 from such sale (recognized or to be recog-  
25 nized when payment is completed), bears  
26 to

1                   “(ii) the aggregate income from such  
2                   sale (so recognized or to be recognized).”.

3           (b) CONFORMING AMENDMENT.—Paragraph (3) of  
4 section 453(i) of such Code, as redesignated under this  
5 section, is amended by striking “paragraph (1)” and in-  
6 serting “this subsection”.

7           (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to sales after the date of the enact-  
9 ment of this Act.

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